



European Union

European Structural
and Investment Funds

**European Structural and Investment Funds
2014 - 2020**

Growth Programme for England

European Regional Development Fund (ERDF) Operational Programme Modification

Purpose:

To inform the Growth Programme Board (GPB) of proposed ERDF Operational Programme (OP) modifications that are currently being drafted and discussed with the European Commission.

Recommendations:

The GPB notes the modifications being developed for the ERDF OP by MHCLG, as the Managing Authority (MA) for ERDF, in advance of formal clearance being sought from the GPB by written procedure.

Summary:

As part of its on-going review of the OP, MHCLG has identified additional modifications that should have been addressed as part of the 2017 modification in relation to the 2018 performance framework milestones. The MA is already committed to a further modification of the OP in 2018 to transfer less developed region ESF funding to ERDF. This change will be combined with amendments to the 2018 performance framework milestones that are agreed with the European Commission to ensure that they are based on appropriate and correct assumptions by:

- Aligning the financial milestones with the N+3 financial targets;
- Maintaining the N+3 target quantum at a programme level but modifying it at a priority axis level by category of region to better represent the implementation timelines of the investments; and
- Amend outputs linked to financial milestones on a pro-rata basis.

These changes will have no impact on LEP area notional financial allocations except in the Less Developed Region with respect to the ERDF/ESF transfer. Changes relating to 2023 output targets are limited to those arising from the ERDF/ESF transfer. No additional modification to 2023 output targets required as the programme is on track to deliver against them.

Once initial discussions with the European Commission are complete MHCLG will seek GPB approval for the changes through a written procedure.

Background

Movement of funding from the ESF to ERDF in the Less Developed Region

1. The ERDF and ESF Managing Authorities have agreed to progress a transfer of €15.3m from ESF to ERDF Priority Axis (PA) 4 to facilitate further investment in low carbon technologies deemed to be economically and strategically important for the Less Developed region, Cornwall and the Isles of Scilly.
2. The Managing Authorities agreed that it was not appropriate for the Less Developed region to receive extra NOMS ESF as established by the OPs, and that following adoption of both OPs, programme modifications would be made to allocate these funds to ERDF. In addition, the ESF Managing Authority has agreed that in accordance with Less Developed region development needs and local strategic plans, it will limit spending on ESF to 25% of the allocation, resulting in a further €2m transfer to ERDF.
3. In total this will see an increase in the Less Developed region's PA 4 allocation by €15,307,412.
4. Similar changes are being made in the ESF Operational Programme. This means however, that the UK would no longer meet its minimum ESF spend. To ensure this obligation is met the change is being offset by a similar decrease in the More Developed region's PA 3 allocation and increase in the ESF more developed region allocation. As such the PA 3 more developed region ERDF element (union support) will decrease by €15,307,412.
5. This movement of Funding in the More Developed region has already been anticipated by the Managing Authority and as such will not impact on the current More Developed LEP area notional allocations.
6. This change had already been communicated to the GPB in 2016 as part of the modifications that took place in 2017. The reason for making this change in 2018 was to ensure it was carried out in parallel with the ESF OP modification.

Aligning the financial milestones with the N+3 financial targets

7. Currently the 2018 performance framework financial milestone is set at 25.54% of the overall allocation (€894,954,084) i.e. the programme allocation for 2014 and 2015 minus the performance reserve.
8. When setting these milestones, the impact of the late start of the programme and the link between financial absorption of N+3 and PF expenditure targets was not given proper consideration. As a result, the 2018 performance and N+3 targets are not in line.
9. A more appropriate approach would be to align the figure to the N+3 target for the end of 2018 (€572,817,466). This target is calculated the same way as the current financial milestone but also excludes pre-financing. Applying the N+3 target to financial milestones would see a reduction of 36%.

Modifying financial milestones at a priority axis level by category of region

10. Financial milestones for the programme were set consistently across each priority axis. However, this incorrectly assumes that each priority axis faces the same implementation timeline and that the timelines are not affected by the economic context.

11. The Priority Axes (PAs) with particularly long implementation timelines are:

- Priority Axis 5 – The process for aligning ERDF with the domestic Environment Agency funding is two-staged and lengthy. This process has to be completed prior to contracts being signed.
- Priority Axis 8 – The lengthy two stage process for agreeing CLLD strategies which is essential to ensuring appropriate local capacity has been built means that spending against those strategies is only beginning in 2018. Given that these are 5 year projects it is unrealistic to expect a quarter of the budget to be spent in the first year.

12. The PAs with implementation timelines impacted by economic changes during the programming period:

- PA 4 – As explained in the 2017 operational programme modification several domestic funds came on stream following the agreement of the original programme. This has meant that the programme has had to be reoriented to ensure the 2 funding streams are not competing in the same space.
- PA 5 – The Environment Agency (EA) undertook a full review of their activity following significant flooding in 2015. This has led to a delay of a year before the EA, a key match funding provider for activity under this priority axis, could be properly engaged.
- PA 6 – The need to demarcate between ERDF and EAFRD (Countryside Stewardship) was the rationale for moving funding out of PA6 under the 2017 modification. The time taken to resolve the issue of demarcation has also adversely impacted on contracting the remaining funding in the priority axis.

13. In these circumstances it is not appropriate for the financial milestones to be distributed consistently across the programme. MHCLG is therefore proposing revisions to 2018 performance framework financial milestones to reflect the differing implementation timelines. In doing MHCLG will respect the overall financial envelope for the programme's 2018 performance framework financial milestones but will seek to lower the milestones in some PAs with a proportionate increase in priority axis 3. The % reduction in milestones being sought is set out in the table on the following page.

Proposed % change in financial milestones			
	Less Developed	Transitional	More Developed
PA1 Innovation	-36%	-36%	-36%
PA2 ICT	-36%	-36%	-36%
PA3 SME Support	-26.6%	-18.5%	-18.7%
PA4 Low Carbon	-36%	-69.7%	-60.2%
PA5 Climate Change	-86.9%	-74.7%	-45.2%
PA6 Resource Efficiency	-78.1%	-56%	-87.2%
PA7 Transport Infrastructure	-36%	N/A	N/A
PA8 CLLD	-73.8%	-61.7%	-43.2%

14. It should be noted that the impact on implementation timelines varies by category of region.

Amend outputs linked to financial milestones on a pro-rata basis.

15. Where outputs are directly linked to financial milestones the output milestone will be adjusted on a pro-rata basis.

16. Changes relating to 2023 output targets are limited to those arising from the ERDF/ESF transfer. No additional modification to 2023 output targets required as the programme is on track to deliver against them.

Next Steps

17. Once initial discussions with the European Commission are complete the MA will seek GPB approval for the changes through a written procedure.

Simon Jones, MHCLG
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